

Testimony of Joe Mwangi-Kioi
Director of Monitoring and Evaluation,
Grameen Foundation USA
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Implementing the Microenterprise Results and Accountability Act of 2004

Mr. Chairman and Members of the House Committee, good afternoon. I am truly humbled by the honor I have been given to appear before you on behalf of Grameen Foundation and the Microenterprise Coalition and I am grateful for the opportunity to testify today. I hope that I can add more emphasis for increased support for microfinance in response to the united voice of the microfinance industry and the unheard “silent screams” of the very poor that we serve in Africa and worldwide through microfinance.

Mr. Chairman and Ranking member Payne, I am excited to have this opportunity to testify as I wish to share some real-life and wonderful experiences to illustrate the key contribution microfinance is making toward poverty alleviation in Africa where there is perhaps the greatest extent of poverty and need for action. Furthermore, I would like to highlight the work of Grameen Foundation and similar microfinance networks in poverty alleviation and to thank you and the Committee and also USAID for the outstanding past support you have given to microfinance and to underscore the importance of further collaboration to ensure full implementation of the Microenterprise Results and Accountability Act of 2004.

Mr. Chairman, I would like to express to you and the Committee our deep gratitude for the leadership that you have shown not only in support of microfinance but also to develop initiatives to address the related human rights and the HIV/AIDS crises. These efforts are benefiting the poor by giving them hope of shaking off the yoke of poverty thereby realizing a life of dignity and freedom. I am sure I speak for all when I say that the microfinance industry would like to do everything possible to ensure success of the cause you are promoting.

Eight years ago, when I transitioned to microfinance from a career in commercial banking, I wondered how an organization could sustainably lend to the poor who did not have collateral and could therefore not qualify or even be able to participate in the formal financial sector. But I learned quickly that not only are the poor bankable, but that lending to them employing microfinance methodologies proved them to be better customers than traditional commercial bank borrowers. This was evidenced by the high rates of repayments of up to 98% in the microfinance sector compared to between 60% and 70% in the commercial bank sector. And within three months, I was convinced that this is a sector I wanted to participate in and especially so when I saw the joy and gratitude of the clients at just being given a very small loan of even as little as \$50 which they appreciated for opening the door of enterprise for them.

The first real-life story and experience of a client that I want to share with you is of a borrower who was operating a small kiosk selling miscellaneous provisions such as bread, milk, maize meal, small bottles of Vaseline petroleum jelly, etc. Being a second loan level client of the SunLink project of PRIDE AFRICA in Nairobi, Kenya, he was invited to the launch of one of our other branches where new clients were getting their first loans of \$50 each. He was asked to share his experience with the loan of only \$50 and how he utilized it in his small business.

I must say I had never seen someone look so happy at being given the opportunity to tell his story. He came with a broad smile from ear to ear and was so excited to share his story that he was literally bouncing on his toes as he came up to the podium. He narrated how he had utilized the amount of the loan to buy a carton of Vaseline. He explained that within two days his carton was all sold out and with the proceeds he invested in another carton. And he explained how turning that loan amount over and over within the month he was able to earn more than enough to pay for the loan and also increase his stocks. He related how he was so grateful to PRIDE AFRICA for having given him the opportunity of a small loan when no bank would. He even advised the new loan recipients to utilize their small loans well to benefit like he did. And he added emphasis to the fact that when his loan was repaid because he was prompt in his repayments without missing his installments he was able to qualify for the next level loan of \$100.

The next real-life story also is from Kenya where, as a part of the same project, a tea kiosk lady also borrowed \$50 to support growth of her small business. She narrated how with that loan amount she was able to purchase supplies so that she could serve a larger number of patrons during the tea and lunch breaks. She too was able to utilize that first loan to achieve higher earnings and then when she paid off that loan she immediately qualified for the next loan level of \$100. She utilized her loans well and expanded her kiosk to its maximum capacity; but she was not satisfied to stop there. She found another place where she could open another kiosk and did so. By the time I left PRIDE AFRICA one and a half years later, she was applying for a loan amount of \$2,500. This case clearly demonstrates the power of microfinance to improve a poor borrower's earnings by moving her from capacity for only \$50 to an amount fifty times more within a period of 18 months. I would say that is quite impressive.

These are just two of the literally millions, yes millions, of success stories of microfinance clients across Africa and around the world getting the opportunity of improving their earnings and lifting themselves and their families and indeed their communities out of poverty permanently.

Unfortunately these success stories are but a drop in the ocean of the poverty that has devastated many in the African continent. Recent statistics published by the World Bank reveal that Africa receives only 6% of the total dollar investments of donor funds although the recipients comprise 21%. There is therefore a compelling need to do more in the continent through microfinance which has been proven to be an effective solution to alleviating poverty, generating powerful returns beyond income and employment including increased expenditures for housing, health, nutrition, and education that

supports transformative development at the household level. Our Board of Directors, which includes one prominent African and many others who are deeply concerned about Africa, has indicated strong interest in us applying the microfinance strategy more broadly on this continent as part of our response to the poverty crisis there.

To this end we at Grameen Foundation have formed a task force as a first step towards increasing and enhancing our work in sub-Saharan Africa. We already have a successful partner in Nigeria, the Lift Above Poverty Organization or “LAPO”, an indigenous NGO. Our work with LAPO was funded by USAID under the IGP grant program which spanned three years from 2003 to 2005. Living in Kenya (my home country) at the time, I served as the lead consultant for Grameen Foundation on this project and was able to see a major transformation in the performance of LAPO over the course of three years. (Towards the end of this project I joined Grameen Foundation as director of their global monitoring and evaluation unit.)

Thanks to USAID’s support, GF was able to achieve specific targets related to institutional strengthening, automation, outreach, operational and financial self sustainability, portfolio at risk, etc. We were able to accomplish our major targets under the program by enabling LAPO to:

- i. increase its number of borrowers to 44,000 from 18,000 in the period of three years
- ii. increase branches from 18 to 36
- iii. develop the systems and procedures and manuals for internal controls and reporting at the operational level in the branches and also in the Head Office
- iv. Structure an effective Internal Audit Department
- v. Automate the Head Office and branch operations (a major challenge since many of the branches are located in areas without electricity)
- vi. Train the staff on the new systems for effective and controlled operations
- vii. Maintain portfolio at risk (PAR) – a way of measuring the repayment performance of clients – at 2% or less
- viii. Achieve financial self sustainability (profitability)

On the ground, LAPO is providing a broad range of credit and savings and other products and services directly to the poor, supporting their efforts to grow their own businesses. In this respect, microfinance is really a hand up, not a hand out. LAPO clients operate dress-making shops, small restaurants, and family farms that benefit from loans to purchase fertilizer, seeds, and other essential inputs. This is especially important in Nigeria where approximately 75% of the population is engaged in agriculture.

After the USAID grant, LAPO is now one of the most robust and successful microfinance NGOs in Nigeria (Africa’s most populous nation), with growth projected to increase from the current 55,000 clients to 220,000 clients by the end of 2008. Outreach at this level would be impacting more than one million people when family members of the clients are considered. This kind of success would not have been possible without the extensive institutional strengthening work and support that we executed with LAPO. As a practitioner, given this impact, I would say that programs that support service provision

directly to the poorest are an appropriate and effective use of public funds granted by USAID. I should note that USAID staff in the Office of Microenterprise Development have been very supportive of us making mid-course corrections during the life of this grant and our partnership with LAPO, and their staff are to be commended for the collegial and flexible way they interacted with Grameen Foundation and LAPO. Within the context of being held accountable for reaching the poorest and achieving results, US AID staff should be given latitude to allow its professionals to be responsive to the fast-changing needs of the microfinance sector and networks like ours. Reporting requirements to Congress from the Office of Microenterprise Development can perhaps be consolidated and simplified to allow the professional staff to focus more on creating an increasing number of success stories like the Grameen Foundation/LAPO experience.

In fact our work in Nigeria has extended far beyond the initial project, as we have played an important role in supporting LAPO to advocate on behalf of supportive microfinance regulations to create an enabling and conducive environment for microfinance institutions to be able to continue serving larger numbers of the poor in their communities. This process will enable MFIs in Nigeria to effectively render services that empower the vulnerable, mainly women and the unskilled, to lift themselves out of the grip of poverty. A more supportive regulatory environment will also lead to partnerships between commercial banks and MFIs like LAPO. We are very close to finalizing a historic transaction that will be a model for commercial bank-MFI partnerships in Nigeria and beyond in the years ahead. Our ultimate goal is to bring microfinance in Nigeria, and indeed elsewhere in Africa and worldwide to scale for greater impact in poverty alleviation.

Further to our work in Nigeria, and as part of our planned enhanced involvement in sub-Saharan Africa, we have already identified several countries where we are formulating plans for entry into the respective microfinance sectors. Our plan provides for a clear strategy to play a key role in the development and management of the microfinance sector in each country in order to have a positive impact on expansion of deeper and broader outreach as well as on the incidence of poverty. Our research is already underway and we project that, we shall have added at least 5 more partners in East, Central and West Africa before the end of 2007 with further additions projected by 2009. This will enable us to facilitate increase of outreach in this needy continent by at least 1,000,000 new clients by 2010. To be able to do this successfully we will need substantial funds to support our efforts. However, these funds are not easily accessible. Given the direct impact on poverty of organizations such as ours and other members of the Microenterprise Coalition, I would renew our call to ensure that US support for microfinance be targeted to organizations that specialize in direct services to the poor. Our networks are directly rendering services to the poor and through such institutions we are able to positively impact the very poor. Mr. Chairman, we therefore appeal to you and your committee to ensure that at least 50% of USAID funding for microenterprise and microfinance programs is reaching the very poor as specified in the Microenterprise Results and Accountability Act of 2004. We also appeal to you to ensure that the FY2007 appropriations process clarifies the Act's requirement to "emphasize the use of implementing partner organizations that meet the requirements stated in the Act" – by

which we understood that a majority of resources should go to the not-for-profit organizations and regulated financial institutions that directly provide services to the poor. We are grateful, Mr. Chairman, for your support for appropriations language that clarifies that “not less than 50 percent of the amounts made available for microenterprise and microfinance activities shall be for grants to private nongovernmental organizations, networks, and practitioner institutions that provide loans and financial services to the poor and very poor microentrepreneurs and households.”

Mr. Chairman, at Grameen Foundation our work in microfinance extends around the globe where we have 52 partners spread from the MENA region (Middle East and North Africa) to East and South Asia and China and also including Latin America and the Caribbean. Through our work with our partners we have increased outreach by over two million new clients in the last two years and we are on track to achieve our number one strategic goal of reaching five million new clients by 2008. Our number two strategic goal is to ensure that 50% of the clients cross the poverty line within five years of joining the program. In this effort we have made significant progress with our Progress out of Poverty Index (PPI) which is among the poverty measurement tools being reviewed as credible indicators of measurement of progress out of poverty. The PPI is a generalized version of the a ten-point scale developed by the Grameen Bank that tracks clients progress towards living a poverty free life. When all ten indicators are satisfied, a family is determined to be “poverty free” with a reasonable degree of certainty (probably some are poverty free when only 8 or 9 indicators are satisfied). A survey conducted in recent years shows an increasing percentage of Grameen Bank’s six million clients are poverty free. The latest survey showed that nearly 60% of them have crossed this threshold. This is due to the innovative work of the Grameen Bank and associated companies created by Professor Muhammad Yunus, and is an inspiration and model for the entire microfinance movement.

The PPI tool is under implementation by several of our partners and we expect that in the near future many in the microfinance industry will use this tool to measure the impact of their programs in poverty alleviation. Continued Congressional support for transparency and accountability in terms of depth of poverty outreach (i.e., focus on the poorest) will be essential to establishing industry standards and performance benchmarks for impact that are now lacking but which the PPI and a few other tools have the potential to address.

Our third strategic goal is to develop three innovations that impact microfinance service delivery and management and facilitate the relevant programs to grow in leaps and bounds. In this strategic plan too Mr. Chairman we are well on the way to achieving our goal. I have already mentioned the PPI which is one of the innovations. The second innovation is the Mifos Project (Mifos) currently under beta test with some of our partners and is slated for official launch at the Microcredit Summit scheduled to be held in November this year in Halifax, Canada. We are very excited about Mifos as we are confident it will change the management of microfinance programs to facilitate more efficient and effective control of clients’ accounts and enable management of large volumes of clients. The third innovation is our growth guarantee product through which

we are able to tap the capital resources in the local environment for required funding for our partners. We have so far closed five guarantees amounting to \$1.6million which through our leveraging agreements will raise a total of \$4.2million for on-lending by our partners to their poor clients. In addition to these closed deals we have in the pipeline for 2006 some fifteen guarantees worth \$15million which when leveraged are projected to mobilize between \$45million and \$60million for poverty focused MFIs. These are resources which will enable our partners to reach larger numbers of the poor and contribute to the cause of poverty alleviation.

Mr. Chairman I would like to conclude my statement by again emphasizing the importance of the work of microfinance practitioners and networks like ours to the cause of poverty alleviation. To illustrate this importance I would like to cite statistics released by the Microcredit Summit Campaign. These indicate that by December 2004, microcredit institutions numbering 3164 reported serving over 92million clients who were among the poorest when they started with the program. Of these 66.6million were listed as poorest clients. This number records an increase of a massive 776% in growth from only 7.6million poorest clients served in 1997. The role of the U.S. Congress in supporting microfinance and especially microfinance for the poorest has played an important role in this dramatic progress. But we are still only scratching the surface of the opportunity to scale up microfinance. A new goal has been set by the Microcredit Summit Campaign to increase outreach to 175 million of the world's poorest families by 2015 and ensure that 100 million of those families are out of poverty by then. For these goals to be achieved, Congressional support -- in terms of funding and a continued focus on ensuring that the poorest families are the primary beneficiaries of US AID-supported microfinance and microenterprise projects -- will be essential.

Mr. Chairman, I have no doubt that this achievement during a period of only seven years gives us results and growth we in the microfinance industry would all like to support in every way possible for the cause of eliminating poverty in the whole world by the optimistically projected 2025. It would surely be a dream come true to see poverty eliminated in my lifetime. As we aim for this very ambitious and noble goal, Mr. Chairman, I would like to propose the following suggestions for review by your committee and incorporation into your policies and procedures to promote and ensure concerted effort and collaborative process for enhanced support to microfinance:

- i. The State Department needs to include economic growth and microfinance in each of its country plans
- ii. The State through USAID should set global goals for microfinance with the aim of regaining global leadership in microfinance
- iii. USAID should set up a process for practitioner input to ensure a collaborative effort to maximize the potential of microfinance
- iv. USAID should dedicate additional and increasing resources to microfinance
- v. Integrate microfinance, natural resource management, health, AIDS, and MCA, into foreign policy goals

Mr. Chairman Smith and Ranking Member Payne, I want to thank you very sincerely for the opportunity to testify here today. Thank You!